

2.0 Governance In Agri-Ventures

2.1 Governance Defined

Boards of Directors are usually involved in business structures like New Gen coops, corporations, associations, partnerships and non-profits. Boards “*govern the business*”. Governance is discussed in this section to provide some background for the reader. This section draws from industry experience and references noted in this paper.

Governance provided by a Board means making decisions on behalf of the members or shareholders in their best interests, to fulfill the organizational mandate. A governance model requires roles, goals and a structure for the organization to perform its business purpose.

Key Governance Concepts

1. Democratic, Corporate, New Gen Models
2. Members elect Directors to represent
3. Directors have responsibility, accountability
4. Management, staff and committees do the work
5. Operating issues exist

Organizations typically have a board of directors, management, staff and committees to help get the work agenda completed. A board of directors has the final decision on behalf of the members (or shareholders). Directors can be held liable for unlawful acts committed by themselves and if the corporation (or entity) is found to commit an unlawful act or in contravention of the business’ interests.

The board can be an advisory board or a real board with full legal implications. Directors can be elected/ nominated through many approaches, which we classify herein as democratic or corporate style elections.

Democratic Board Models

In a democratic election approach, each person is provided one vote. Directors can be elected directly or through a delegate structure. The former is a simpler approach and directors represent all members. With delegates in a representative democratic approach, delegates are voted in and they, in turn, then elect a board of directors. Electing delegates means a more complicated process and more organizational costs, but allows for more direct contact with local concerns/ needs and developing a broader base of future leaders and directors. This is more appropriate for a larger organization having a geographic or other special segmenting of members.

For the small- scale New Gen co-op, it is more likely that the board member will be recruited from another industry (or business) and may become an advisory board member to act as a mentor to the business. The deficiency in this approach is the lack of industry experience and knowledge of contacts.

Corporate Board Models

Corporate elections, in contrast, have shareholders vote based on their shareholdings of the total investment, which allows a shareholder with a high amount of shares (say 20%) to dominate and control the board of directors. This style of governance creates a different organizational style and is not a democratic model. It is not common in the agri-food industry associations. This is very common in business models.

New Gen Models

In the New Gen models, the members elect directors in the business model approach on a direct vote basis, using one member one vote for the candidates. The minimum number of directors is 60% of the membership (Corbett). It is likely that the board member will become an advisory board member and be recruited from personal and business contacts (discussed later).

2.2 Management, Staff and Committee Roles in the New Gen Co-op

A general manager (or chief executive officer) and staff will support the work of the directors. These people carry out the explicit directions provided to them by the board of directors and usually follow a written business plan, which has been jointly developed and approved by the members. Management are hired for their expertise and knowledge and they in turn, hire staff to assist them to complete the organization's work.

Committees and task forces of the board are also commonly used to help carry out the work. Standing committees (permanent) include: an audit and finance committee, executive committee (to help do the administrative work), member services committee, policy committee and a compensation committee. The audit and finance committee will confirm the finances of the organization with management and an independent auditor. Executive committee will help management with certain administrative functions such as signing authorities, agenda setting and certain admin decisions. Member services committee develops and monitors programs for members. Policy committee will develop, review and advise on policy and procedures for the board and organization. Compensation committee will review and advise on the general managers' compensation and the related directors' per diems and expenses.

Special committees and task forces are used to complete a task which needs special attention in a period of time. Some organizations have strategic committees, research advisory committees and communication committees. All committees should have a terms of reference, member makeup and reporting line to the board of directors. Periodically the board needs to review the use and importance of committees and task forces to ensure they are still needed.

Directors are elected for a specific term (usually 2 terms of 2-3 years) and are accountable to the members. Committees are attached to the board of directors. Accountability for decisions and outcomes is monitored by regular monthly or quarterly board meetings and following a current business plan.

For the New Gen Co-op, it is likely that some committees will be needed to help manage the affairs and provide other ways to involve members in decision-making.

2.3 Operating Issues for a Board and Management

Two main concerns can arise with governance and a board structure:

- is there an adequate voice for all members?;
- is there adequate planning and control?

Adequate voice means ensuring that all members are represented in discussions leading to policy, operational and investment decisions. Boards wish to have all points of view covered in any of these discussions to remove potential conflicts and future problems. This can be addressed by the use of committees, task forces and surveys.

Adequate planning and control means that all members are represented in financial and program decisions which may use or affect the use of member resources by the organization. This is usually addressed by policies, procedures and defining roles in the organization. Surveys and audits are also typical means to monitor business plans and actions.

Other operating issues include:

- managing board and staff conflicts;
- will it be a policy board or a management board role?;
- empowering the CEO or general manager with authority to manage the organization;
- developing conflict of interest guidelines, levels of authority for decisions, policies and procedures for accountability;
- adequate communication plans.

Governing the organization to achieve the business mandate requires strong ties with its stakeholders (community, staff, investors, members) via the board and management.

2.4 Guidelines for Governance with a Board of Directors

Guidelines for a new governance structure suggest some considerations. These guidelines include:

- directors - need to be a member or an independent qualified person;
- may have an investment interest, but must represent the members/ investors;
- need to have a term of office (2-3 years with a maximum of 2 terms);
- need to use due diligence in decision processes.

Other key points in corporate governance:

A New Gen Co-op is a “model” for to use to do business:

- Govern -means to guide, direct and take care, “steward”;
- Corporate governance means directing the business-involving other people’s money - OPM;
- In the agri-food sector, governance is new for many producers;
- Ensure you have both general skills and specialist skills within the Board;
- Need to take special care- directors are under the microscope given business failures and non-disclosure issues;
- Develop good practices for use/ avoid expensive mistakes..

2.5 Building Your Board of Directors

You need to build your Board of Directors (advisory or real board) and you will find it to be a challenge as not everyone is as interested as you are in the new venture. Many reasons contribute to people avoiding becoming involved from conflicts to personalities to possible financial and legal liabilities.

To recruit you will need to:

- show candidates you respect them and they will respect you;
- Confirm their interest & own needs -meet with key players separately;
- define conflicts of interest/ and time availability. Also note a possible 2-3 yr + commitment;
- develop a climate of trust & candor. Use honest appraisal with the Board and
- allow open & dissenting views;
- develop Board accountability, evaluate performance, learn together;
- lead the vision and business plan towards milestones. Think big, as big ideas will create the vision;
- possibly involve a 3rd party to facilitate ideas and the group and to maximize results & inputs.

What are the Best Practices of Boards?

A summary of some of the best practices for Board management include:

- Two key criteria- can the Board member bring forward good market contacts or money for the business this will be very important to growing the business;
- Guiding the growth- to real market opportunities/ with a business focus;
- Monitoring and using of good business practices/ mentoring the business;
- Communicating the vision- to the public & the staff;
- being responsible for asset management-financial, environ, social-"*triple bottom line measures*";
- challenging and directing the CEO through principles/ policies;
- Board compensation- can have per diems, but many industry examples show
- many Boards have no fees for new ventures;
- Company may need board risk insurance.

The Board of Directors Checklist

A summary of the key items to consider are:

- Focus on policy setting and the key business goals;
- Functional boards have from 5-9 members, some members are independent;
- members (some) rotate every 3 years for new ideas;
- developing a board policy book- for operations; conflict of interest policy;
- set up audit & finance, compensation, executive committees;
- appoint a Board Chairman;
- meet every month and review performance against plans;
- hold an annual meeting to receive input from members.

3.0 Seeking and Sourcing Management

3.1 Seeking the CEO/ Management

How does one find the Manager or CEO for the new venture and how do you pay? Often in rural areas, it is a “*hit and miss*” selection process which can be frustrating in trying to get new management in place. Many poor investment decisions have been made in rural areas due to a lack of both adequate due diligence and management.

The top three issues are:

- make sure you know what you are looking for;
- allow time for a search;
- screen the people carefully.

Some of the key guidelines for seeking a manager include:

- qualified people are in West Canada, but you need to seek them out;
- Qualifications need to be have relevant- 1. business skills, 2. industry knowledge and operating experience- track record;
- contact your key advisors accountant, lawyer, banker for leads and advice;
- make sure you have a business plan in place for them to address.

Where can we find a CEO/ Manager? There are several ways to proceed:

- Fundamentally- a “make or buy” strategy; - can you train your own or do you need to find someone who is working elsewhere now?;
- Make- train/ groom your person over time as the key person;
- Buy- recruit an experienced person from another business;
- a “make” strategy - Sunterra Foods- developed management internally;
- some food businesses- have hired people who are leaving other food businesses as they change management;
- some very successful food businesses- have hired a person with business skills and trained/ oriented them to the food industry.

These new agri-venture projects require self-starters with business skills and industry knowledge to develop the business. (We know of a number of “executives for hire” who are doing this type of work.)

It is noted that a number of highly qualified people can be attracted into the new venture with advice from professionals such as chartered accountants, lawyers, Professional Agrologists and bankers. Other sources of possible contacts can include chambers of commerce, economic development officers and government officials. Many of these people will know of people interested in these types of jobs.

Professional Agrologists are involved in many agri-ventures. One of the observations we note is that PAgS offer a unique source of qualified candidates who may be appropriate to this type of work. The Alberta Institute of Agrologists website (www.aia.ab.ca Edmonton) is noted in the references and the Canadian Consulting Agrologists Association (www.consultingagrologists.com Saskatoon) is another source to locate people who can carry out this type of work.

How Do we do the Search for the CEO/ Manager?

Several steps are involved but first you need to decide what qualifications do you want? What prior education and industry experience is needed, what about management and financial skill, marketing skill and people skills ? Once this is determined, then:

- Give the search time- may take 1-2+ months, can advertise through papers or a word of mouth approach;
- Can use executive search firms/ consultants who do recruiting;
- Scan farm papers for sample ads and similar positions;
- Once you have several candidates/ people, screen them systematically- use a resume- check their references;
- may have several interviews 1st interview, 2nd interview, 3rd interview;
- Test your “performance measures” for your business with them- can they do it?;
- *use the “Wife” test (or another 3rd party)- to confirm their credibility.*

Use of the web is a more common approach of many people today. Website like www.farms.com/careers and www.agcall.com can be direct ways to also seek out candidates.

The hiring steps in summary include:

- clearly understand what type of person you are seeking to hire and an expected salary;
- make personal contact with others for possible candidates;
- advertise if needed;
- interview and confirm the interest and availability;
- sign an contract for services as you mutually agree.

How Much do you Pay?

Typically the salary for these types of positions can be based on a base plus performance (equity) on a monthly basis or on a retainer basis for a certain number of days per week or per month. Salaries will need to be in the order of \$60,000 up to \$150,000+ for senior level companies.

Many factors enter this compensation decision, such as education, prior experience, their interest, prior compensation and so on. Some general principles include:

- for new emerging companies-unknown- it is a higher risk to the employee;
- for established, larger companies, it is a lower risk- can offer benefits+ stability;
- typically compensation is a base salary + performance bonus+ benefits;
- this can mean from \$60,000 to \$150,000+/ yr plus bonus, depending on the size of business and other factors;
- for a new business, salary is market- based and usually a term contract approach is used;
- over time, the retention of the manager/ CEO is based on salary plus a challenging environment and compatibility with the Board;
- to help develop this, need clear policies- holidays, expectations in the business.

Hiring Options to Consider

One of the options is a *full-time position* as a CEO/ manager of the co-op. As a new employee, the CEO or manager will need to offered a contract (verbal or written) in terms of the job expectations, benefits (usually 15% of salary)and other items he needs to consider. Other items include: car allowance (from \$0.33/km to \$0.35/km or a flat fee of say \$400 per month), an office, computer, cell phone, marketing budget, support staff, and so on. Other items will include a holiday arrangement and the clear definition of roles vis the owners and the board. As an employer, you may also wish to consider an exit clause and confidential/ none- compete clauses if things do not work out well.

Another option a New Gen Co-op can consider in hiring is a *part-time position*, which has been done in several cases with PAgS. These arrangements are usually on a 2-3 days per week basis on a per diem of say \$200 to \$500.

Another option to consider for remote and regionally based ventures is a *shared position* with other ventures. In this case, a marketing manager can be hired on a full-time basis to work for several ventures and in turn, provide the marketplace with several product lines. Some real examples of this operate in Alberta.

Alberta Vegetable Co-ops (source: Toma & Bouma, Cooperating to Compete)

History - Alberta has a small population (3 m) and has a small greenhouse industry and field vegetable production area. Most of the competing products are supplied from BC, California, Mexico and Arizona.

Two Alberta grower co-ops have developed and supply cucumbers and tomatoes into retail markets. Alberta has about 65-70 acres of greenhouses in vegetable production. Two main production groups exist in the province.

Most of the greenhouse cucumber production is located in Medicine Hat and is marketed through the Red Hat Co-op as a supply chain. The Co-op has located here due to a ready supply of natural gas for heating, long sunlight hours and transportation access to a food distribution hub (Calgary). Further the Co-op has a full-time marketing and sales staff who sell all product on behalf of the members.

A second main group, Pik n Pak (Lacombe), has production marketed through Sunfresh Farms in Edmonton, which serves Edmonton and Calgary. The industry has clustered around two production areas for different reasons, but is successful because they do not directly compete and each has its own production- assembly- warehousing- marketing function. This alliance/supply chain approach has created a sustained marketable volume of product and a core of producers. It has a critical mass of production, knowledge and marketing which makes it a viable competitor to imported products. Retailers appreciate the opportunity to offer local product which can be fresher and more readily available when other supplies may be short.

Lessons Learned- This industry is competitive in a North American market. Canada and Alberta import large supplies of product throughout the year, and these niche players continue to grow due to a co-operative spirit lead by internal board members and champions. The alliance has a clear definition of functions- with a separate marketing

function and an open communication process among members on market needs. More of these “shared management” models can be done in remote areas of Alberta.

What are some Key Questions for the CEO of My New Gen Co-op?

- Where is the New Gen Co-op/ company headed?
- Is the business plan “real” and viable?
- Is the CEO really “part” of the business/ industry and understand it well?
- Is the future manager/ business Team being developed?
- Are we building a positive external image/ relationships in our market?
- Can the CEO deliver the results/ the plan?
- What have you not told me?

3.2 Management Key Decision Points

Starting a new venture is risky and needs some way to manage both business risks and business growth needs. This can be accomplished through a proven business process.

Management of the rural-based business venture has certain key decision points which are very useful to follow:

- the business concept- feasibility study/ legal, financial and technical review;
- the business plan and financing plan;
- the project financing and implementation plan.

Each of these “*checkpoints*” need to be reviewed before the business should proceed. These are known as go/ no go decision points.

A formal feasibility review of each area is important to consider as many Alberta and western Canada projects have failed, in the order of many millions, due to a poorly researched investment. Having key management decision points is very useful to “check” the progress before committing more scarce resources.

How does the CEO/ Manager and the new Board Relate?

The Board of Directors’ role is usually one of two types:

- A “hands-on” Board - usually in a start-up venture;
- A “Policy” Board - for an established more mature company.

The Board is the final authority and has accountability for the investments. In a corporate sense, a New Gen Co-op will need at least 3 Board members. The Board of Directors must *exercise “due diligence” in decisions* - what a reasonable person would do. The Board and CEO (Chief Executive Officer) develop the business plan together - the Board directs and the CEO or manager delivers against the business plan.

Thus the decision points are integrated for both parties in the business plan.